

Message Text

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ORIGIN NEA-12

INFO OCT-01 ISO-00 AID-20 FBO-01 ABF-01 FS-01 CU-04 IGA-02

OMB-01 TRSE-00 SS-20 NSC-10 L-03 CIAE-00 INR-10

NSAE-00 RSC-01 HEW-08 AGR-20 EB-11 SSO-00 NSCE-00

INRE-00 /126 R

DRAFTED BY NEA/INS:DWBORN/AID/ASIA:HTHOMAS:HME

APPROVED BY NEA:LBLAINGEN

NEA/EX:RHUNT

A/FBO:PSEREY

AID/ASIA:JCOLES

----- 006608

O R 011953Z DEC 73 ZFF4

FM SECSTATE WASHDC

TO AMEMBASSY NEW DELHI NIACT IMMEDIATE

INFO AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

AMEMBASSY KATHMANDU

C O N F I D E N T I A L STATE 236125

E.O. 11652: GDS

TAGS: EFIN, IN, NE

SUBJECT: RUPEE SETTLEMENT: REQUIREMENTS FOR PL-480 RUPEES

DELIVER AMBASSADOR BEFORE DEPARTURE

SUMMARY: DO WE HAVE ENOUGH PL-480 RUPEES TO MEET OUR
NEEDS? END SUMMARY

1. ONE OUTCOME OF SETTLEMENT WILL BE TO LEAVE USG WITH NO
REPEAT NO OVERHANGING BALANCES OF PL-480 RUPEES. NEVER-
THELESS, THERE ARE CERTAIN INESCAPABLE NEEDS FOR PL-480
RUPEES AND PROPOSED TERMS OF SETTLEMENT PROVIDE FRAMEWORK
TO COVER THESE BASIC NEEDS. THIS TELEGRAM SETS FORTH
USG AGENCY SPECIFIC NEEDS IN TERMS OF TIMING.
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2. BEFORE JUNE 30, 1975, WE WILL NEED THE FOLLOWING
AMOUNTS OF PL-480 RUPEES:

, ALL USG AGENCIES BALANCE OF FY 74 REQUIREMENTS:

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DOLS 12.5 MILLION(EST) EQUIVALENT.
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2. AID TO NEPAL (FY 75)

DOLS 8,666,667

3. FBO (FY 75)

DOLS 4,300,000

4. HEW/SRS (FY 75)

DOLS 200,000

5. USDA - AGRICULTURE MARKETING (FY 75)

DOLS 400,000

3. PROJECTED INFLOWS INTO COOLEY ACCOUNT FROM AGREEMENT
SIGNING DATE THROUGH END FY 75 WERE ESTIMATED (LAST
APRIL) TO BE ABOUT DOLS 23.5 MILLION EQUIVALENT. OUR
TENTATIVE ESTIMATE FOR TOTAL USES THROUGH JULY 1, 1975,
AGGREGATES MINIMUM OF 26.1 MILLION EQUIVALENT PLUS DOLS
12.8 MILLION IN CONVERSIONS.

4. THERE ARE THREE MAJOR PROBLEMS WITH RELYING ON
COOLEY LOAN INFLOWS FOR FY 75 NEEDS. FIRST, THESE
INFLOWS ARE INSUFFICIENT. SECOND, THE COOLEY LOAN
INFLOWS WILL BE REDUCED BY DEFAULTS (BOTH PAST AND
POSSIBLE FUTURE DEFAULTS) AND COULD BE REDUCED BY EFFECT
OF ANY DEVALUATION ON RUPEE COST OF CONVERSIONS. THIRD
PROBLEM IS TIMING.

5. SINCE COOLEY LOAN REPAYMENTS FLOW IN OVER COURSE
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OF FISCAL YEAR WE HAVE TIMING PROBLEMS IN MEETING SOME
OF THE LARGER USERS' REQUIREMENTS. THE LARGE USERS
ARE (A) CONVERSIONS AT DOLS 6.4 MILLION EQUIVALENT
ANNUALLY; (B) NEPAL AID AT DOLS 8 MILLION; (C) FBO
AT DOLS 4.3 MILLION IN FY 75 AND A CONTINGENCY DOLS 4.2
MILLION IN FY 76. FOR FY 76 COOLEY INFLOWS DIMINISH
TO MAXIMUM OF DOLS 17.2 MILLION, WHILE USERS DEMANDS
CONTINUE AT ABOVE LEVELS. THEREAFTER, THE BALANCING
AND TIMING SEEMS MANAGEABLE.

6. IN FY 75 AND 76 WE SEE SOME PROBLEM OF MANAGING
OUR RESOURCES TO FIT TO USERS' NEEDS IN TIMING TERMS.
TO EASE THIS PROBLEM FOR FY 75 UNTIL THE COOLEY FLOWS
BUILD UP, WE SEE NO ALTERNATIVE TO USING THE TRANSITION

ACCOUNT BETWEEN AGREEMENT DATE AND JUNE 30, 1974 FOR
NEPAL'S FIRST TRANCHE AND TO COVER FY 75 NEEDS FOR FBO

AND OTHER AGENCIES. THIS APPROACH THEN RELIEVES
IMMEDIATE PRESSURE ON THE COOLEY ACCOUNT AND ALLOWS
FOR JULY 1, 1974 CONVERSION AND BUILDUP TOWARD THE
HOPED FOR MAXIMUM OF DOLS 23.5 MILLION (LESS JULY 1,
1974 CONVERSION) SCHEDULED INFLOW SO THAT LATE IN FY 75
WE SHOULD BE ABLE TO HANDLE THE JULY 1, 1975 CONVERSION,
NEPAL'S SECOND TRANCHE AND ANY NEEDED ADVANCES AGAINST
FBO, USDA, HEW, AND INTERIOR'S NEEDS FOR FY 76.

7. THE IMMEDIATE TAPPING OF THE TRANSITION ACCOUNT FOR
NEPAL AND THE FBO IS NECESSARY BECAUSE:

(A) IN THE CASE OF NEPAL WE HAVE IMMEDIATE NEEDS IN
FY 74 WHICH OTHERWISE WOULD HAVE TO BE MET WITH APPRO-
PRIATED DOLLARS WHICH WE DO NOT CONSIDER DESIRABLE
ALTERNATIVES. MOREOVER, AID CONSIDERS IT A PRIMARY
OBLIGATION OF GOI TO AGREE TO IMMEDIATE RESUMPTION OF
USE OF RUPEES FOR NEPAL GIVEN ARBITRARY STOPPAGE IN
1972 AND THREE-YEAR LIMITATION WRITTEN INTO PRESENT
AGREEMENT. WE ALSO HAVE PRECEDENT FOR BULK TRANSFER
OF INDIAN RUPEES FROM USDO ACCOUNT IN RBI TO USDO
NEPAL ACCOUNT IN COMMERCIAL BANKS WHICH WOULD EFFECTIVELY
CONSTITUTE "USE" IN INDIAN EYES; AND

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(B) FBO JUDGES IT POLITICALLY VERY RISKY, IMPRACTICAL,
AND POSSIBLY SUBJECT TO POINT OF ORDER CHALLENGE IN
CONGRESS TO USE NON-PL-480 RUPEES TO MEET FY 75 NEEDS.
TO BE WITHOUT PL-480 RUPEES MEANS EITHER (A) PRESENTING
TO CONGRESS IN JANUARY 1974 NEED FOR NON-PL-480 RUPEES
WHICH NOT FEASIBLE (SEE BORN/LANDE NOV. 29 LETTER), OR
(B) SHIFTING TO DOLLAR BUDGET (NO PROVISION HAS BEEN
MADE FOR THIS), MAINTENANCE REQUIREMENTS FOR INDIA AT
SEVERELY REDUCED LEVELS, AND ELIMINATING PLAN NEW
BUILDINGS PROJECTS NOT ALREADY UNDER WAY IN INDIA FOR
THE FORESEEABLE FUTURE. FBO EXPECTING TO MAKE PRESENTA-
TION FOR SHIFT TO NON-PL-480 RUPEES COMMENCING WITH
FY 76, BUT NEEDS 4.2 MILLION FOR FY 76 IN CASE FIRST
ATTEMPT TO CHANGE LEGISLATION FAILS.

8. FOR CERTAIN TECHNICAL REASONS OTHER AGENCIES NOT ABLE
MAKE EARLY SHIFT TO NON-PL-480 FUNDING. HOWEVER, THEIR
CLAIMS RELATIVELY MODEST AND CAN BE MET FROM COOLEY
INFLOWS UNTIL THEY ARE ABLE MAKE NECESSARY BUDGET
ADJUSTMENTS TO TERMINATE RELIANCE ON PL-480 RUPEES.

9. BASIC TO AID STRATEGY ON USE OF PL-480 RUPEES FOR
NEPAL IS ASSUMPTION THAT WORDS "USE OR ALLOCATE" (NOV. 23

DRAFT, PART II, PARA 10(A)) ARE DEFINED AS TRANSFER OUT

OF AND HAVE NO CONNOTATION BEYOND THAT SENSE. WE WOULD NOT WISH TO BE BOUND TO FIXED TIME LIMIT IN TERMS OF OBLIGATION OR EXPENDITURE OF AMOUNTS TRANSFERRED.

10. IN SUM, WE CAN NOT HAVE SETTLEMENT WHICH LEAVES ABOVE USG AGENCIES SHORT OF PL-480 FUNDS IN FY 75 OR IN CASE FBO REASONABLE PROVISION AGAINST POSSIBLE NEED IN FY 76, THESE AGENCIES SEEK REASONABLE ASSURANCE THAT THEY WILL NOT BE CAUGHT SHORT OR LEFT TO COMPETE AGAINST EACH OTHER FOR USE OF INSUFFICIENT PL-480 FUNDS IN FY 75. ONLY SOLUTIONS WE CAN ENVISAGE ARE EITHER:

(1) TO RESERVE SUFFICIENT PL-480 FUNDS IN TRANSITION ACCOUNT TO ENSURE THERE NO DOUBT ABOVE NEEDS WILL BE MET IN FULL; OR

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(2) TO REDUCE BUDGETS CONCERNED. WE WOULD WELCOME ANY OTHER SOLUTIONS YOU MIGHT WISH SUGGEST. IF WE DO DECIDE DRAW ON TRANSITION ACCOUNT IN ABOVE MANNER, WE COULD ACCEPT ANY MECHANISM WHICH GOI MIGHT PREFER SUCH AS TRANSFER OF ALL FUNDS OUT OF TRANSITION ACCOUNT INTO COMMERCIAL BANKS BY JUNE 30, 1974, AND OF COURSE RETURN TO GOI OF ANY PL-480 RUPEES NOT NEEDED. PORTER

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<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: X
Capture Date: 10 MAY 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AGREEMENTS, RUPEE, EXCESS FOREIGN EXCHANGE
Control Number: n/a
Copy: SINGLE
Draft Date: 01 DEC 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: elyme
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973STATE236125
Document Source: ADS
Document Unique ID: 00
Drafter: NEA/INS:DWBORN/AID/ASIA:HTHOMAS:HME
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Film Number: n/a
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731256/abqcekaw.tel
Line Count: 194
Locator: TEXT ON-LINE
Office: ORIGIN NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: elyme
Review Comment: n/a
Review Content Flags:
Review Date: 19 DEC 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <19-Dec-2001 by martinml>; APPROVED <15-Jan-2002 by elyme>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: RUPEE SETTLEMENT: REQUIREMENTS FOR PL-480 RUPEES DELIVER AMBASSADOR BEFORE DEPARTURE
TAGS: EFIN, IN, US
To: NEW DELHI NIACT INFO BOMBAY
CALCUTTA
MADRAS
KATHMANDU
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005